

# FISCAL UPDATE

July 11, 2003

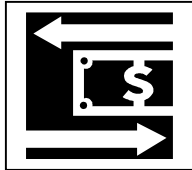
## Legislative Services Agency

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### APPROPRIATIONS TRANSFER FROM MEDICAL ASSISTANCE (MEDICAID) PROGRAM – DEPARTMENT OF HUMAN SERVICES

#### Appropriations Transfer



The Legislative Services Agency (LSA), Fiscal Services, received notification of a request to transfer funds pursuant to Section 8.39, Code of Iowa. The notice requests transfers of FY 2004 appropriations relating to the Department of Human Services. The notice requests a transfer of \$15.2 million from the Medical Assistance (Medicaid) Program, in the Department of Human Services (DHS), as follows: \$13.5 million to the Department of Management (DOM) for the Salary Adjustment Fund and \$1.7 million to the Judicial Branch for operations.

#### Reason for Transfer

The Medical Assistance (Medicaid) budget is anticipated to have a surplus in FY 2003, which is expected to carry forward into FY 2004. House File 683 (FY 2004 Grow Iowa Values Fund Act) outlined the distribution of the \$30.0 million in salary adjustment, in descending order, to the Department of Corrections (DOC), the DHS, the Department of Public Safety (DPS), and then to the remaining State departments, boards, commissions, councils, and agencies.

According to the DOM, the actual calculation of salary adjustment need indicates that full salary adjustment funding could only be provided to the DOC and the DHS.

#### Action Finalized

Action on this transfer was finalized on July 7, 2003.

#### More Information

Additional information is available from the LSA upon request.

STAFF CONTACT: Jennifer Dean (Ext. 17846)

### APPROPRIATIONS TRANSFER FROM OPERATIONS ACCOUNT – INFORMATION TECHNOLOGY DEPARTMENT

#### Appropriations Transfer



The Legislative Services Agency (LSA), Fiscal Services, received notification of a request to transfer funds pursuant to Section 8.39, Code of Iowa. The notice requests transfers of FY 2003 appropriations relating to the Information Technology Department. The notice requests a transfer of \$300,000 from the Information Technology Department, Operations Account, to the Department of General Services, Utilities Account.

#### Transfer Rationale

The transfer was requested due to higher than anticipated utilities costs. The

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FY 2003 estimated net appropriation for Capitol Complex Utilities is \$1.8 million.

**Excess Funds**

House File 2627 (FY 2003 Second Omnibus Appropriations Act) allows excess funds from the Department of General Services Utilities Account to carry forward into FY 2004 for utility expenses.

**Action Finalized**

Action on this transfer was finalized on July 9, 2003.

**More Information**

Additional information is available from the LSA upon request.

STAFF CONTACT: Ron Robinson (Ext. 16256)

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**APPROPRIATIONS TRANSFER FROM OPERATIONS  
APPROPRIATION – DEPARTMENT OF REVENUE AND  
FINANCE**

**Appropriations Transfer**



The Legislative Services Agency (LSA), Fiscal Services, received notification of a request to transfer funds pursuant to Section 8.39, Code of Iowa. The notice requests transfers of FY 2003 appropriations relating to the Department of Revenue and Finance. The notice requests a transfer of \$11,000 from the Department of Revenue and Finance operating appropriation to the Department of Revenue and Finance for cigarette stamp printing.

**Reason for Transfer**

Section 453A.7, Code of Iowa, provides a \$115,000 standing limited appropriation for the printing of cigarette stamps. The estimated net appropriation for FY 2003 was \$110,000 and was insufficient to cover the costs of printing stamps.

**Action Finalized**

Action on this transfer will not be finalized prior to July 5, 2003.

**More Information**

Additional information is available from the LSA upon request.

STAFF CONTACT: Ron Robinson (Ext. 16256)

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**APPROPRIATIONS TRANSFER FROM GOVERNOR'S  
GENERAL OFFICE APPROPRIATION**

**Appropriations Transfer**



The Legislative Services Agency, Fiscal Services, received notification of a request to transfer funds pursuant to Section 8.39, Code of Iowa. The notice requests transfers of FY 2003 appropriations relating to the Governor's General Office. The notice requests a transfer of \$52,000 from the Governor's General Office appropriation to the Governor's Terrace Hill Quarters appropriation.

**Reason for Transfer**

The transfer was requested to cover greater than anticipated expenses in the Terrace Hill Quarters Account. The FY 2003 estimated net appropriation for the Terrace Hill Quarters was \$98,000. The Governor recommended an appropriation of \$108,000 for FY 2003. The actual FY 2002 appropriation was \$142,000, including a transfer of \$33,000 to the Terrance Hill Quarters from the Governor's General Office appropriation.

**Action Finalized**

Action on this transfer was finalized on March 21, 2003.

**More Information**

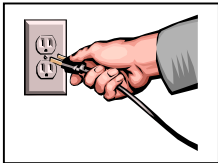
Additional information is available from the LSA upon request.

STAFF CONTACT: Ron Robinson (Ext. 16256)

### **APPROPRIATIONS TRANSFER FROM UTILITIES ACCOUNT – DEPARTMENT OF GENERAL SERVICES**

**Appropriations Transfer**

The Legislative Services Agency, Fiscal Services, received notification of a request to transfer funds pursuant to Section 8.39, Code of Iowa. The notice requests transfers of FY 2003 appropriations relating to the Department of General Services. The notice requests a transfer of \$25,000 from the Department of General Services, Utilities Account to the Department of General Services, Terrace Hill Account.

**Reason for Transfer**

The transfer was requested due to higher than anticipated utilities and other expenses for Terrace Hill. The FY 2003 estimated net appropriation for Terrace Hill was \$230,000. The FY 2003 estimated net appropriation for Capitol Complex Utilities was \$1.8 million. House File 2627 (FY 2003 Second Omnibus Appropriations Act) allowed excess funds from the Department of General Services, Utilities Account, to carry forward into FY 2004 for utility expenses.

**Action Finalized**

Action on this transfer was finalized on May 5, 2003.

**More Information**

Additional information is available from the LSA upon request.

STAFF CONTACT: Ron Robinson (Ext. 16256)

### **CHANGES IN GASOLINE TAX CREDITS**

**Tax Credit**

House File 716 (FY 2002 Ethanol Sales Promotion Act) provided a tax credit of 2.5 cents per gallon of ethanol-blended gasoline in stations above a threshold of 60.0% of all gasoline sold. It was estimated the tax credits would reduce General Fund receipts by an estimated \$500,000 in FY 2003 and by \$1.3 million in FY 2004.

**Tax Rate Change**

The Act also provided for changes in tax rates based on the gallons of ethanol-blended gasoline sold in the State between January 1 and December 31 of each year. The tax rates changes will take effect on July 1 of each fiscal year. The Act allowed regular gasoline tax rates to change at the beginning of the fiscal year, depending on the percentage of ethanol-blended gasoline sold during the previous calendar year.

**Tax Schedule**

The following tax schedule was implemented on July 1, 2002, and will be effective through June 30, 2007. The Act provided that after June 30, 2007, the excise tax on gasoline would return to 20.0 cents, and gasohol would increase from 19.0 cents to 20.0 cents per gallon.

<u>Ethanol Percentage</u>	<u>Ethanol Tax</u>	<u>Gasoline Tax</u>
0% - 50%	19.0	20.0
50% - 55%	19.0	20.1
55% - 60%	19.0	20.3
60% - 65%	19.0	20.5
65% - 70%	19.0	20.7
70% - 75%	19.0	21.0
75% - 80%	19.3	20.8
80% - 85%	19.5	20.7
85% - 90%	19.7	20.4
90% - 95%	19.9	20.1
95% - 100%	20.0	20.0

### **Fiscal Impact**

For calendar year 2002, the market share of ethanol-blended gasoline was 55.5%. Since this percentage was within the 55-60% range, the tax on regular gasoline will increase by 0.2 cent, for a tax rate of 20.3 cents per gallon beginning July 1, 2003. The result will be an estimated increase of \$2.4 million (0.6%) for the Road Use Tax Fund in FY 2004. The increased revenue will offset losses to the Fund due to the increasing market share of ethanol-blended gasoline.

### **More Information**

Additional information is available from the LSA upon request.

STAFF CONTACT: Mary Beth Mellick (Ext. 18223)

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## **IOWA'S TOBACCO SETTLEMENT**

### **Tobacco Settlement**



On November 20, 1998, 46 states approved a settlement agreement with the four major tobacco industry manufacturers that comprise 99.4% of the United States (U.S.) cigarette market. The manufacturers agreed to a settlement valued at \$206.4 billion to be paid over 25 years to settle tobacco-related lawsuits filed by the states. The Master Settlement Agreement (MSA) covered 39 states that filed lawsuits and seven states that had yet to sue. The settlement does not apply to the four states that previously settled lawsuits.

### **Funding Provisions**

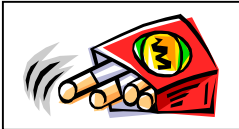
The funding provisions of the settlement include:

- An annual industry payment in perpetuity to the 46 settling states plus \$12.7 billion for "up-front" payments. Up-front payments were distributed beginning in December 1998 and continued through January 2003. Annual payments will total \$195.9 billion through the year 2025 and will be adjusted annually for inflation and cigarette sales volume. Iowa's total share will be approximately \$1.9 billion.
- \$8.6 billion for a Strategic Contribution Fund, to be paid to states over a ten-year period beginning in April 2008, and allocated based on efforts expended to resolve state lawsuits against tobacco companies. Iowa's share will be approximately \$234.0 million.
- \$50.0 million for an Enforcement Fund available to states to prosecute settlement violations. Payments will be made to a national escrow agent and made available to states as needed for prosecution.

- \$1.5 billion for a sustained advertising program to counter youth tobacco use and educate consumers about tobacco related diseases. Payments will be made to a foundation that will use the funds to administer a national campaign.
- \$250.0 million to develop programs to reduce teen smoking and substance abuse and to prevent diseases associated with tobacco use. Payments will be made to a foundation that will use the funds to administer a national campaign.

**Funds Received**

Iowa will receive approximately \$1.9 billion (0.9%) of the total funds allocated for distribution to the states. Iowa received in excess of \$250.0 million from FY 1998 through FY 2003. According to the Office of the Attorney General, Iowa will receive an additional \$726,000 from tobacco companies by June 30, 2003, as a result of a national settlement to resolve disputed payments to states under the Master Settlement Agreement.

**Settlement Agreement**

Brown & Williamson, the nation's third largest cigarette manufacturer, which will pay \$150.0 million to states, will pay the majority of the funds. Brown & Williamson manufactured cigarettes that were sold by another company, Star Tobacco Company, which was not a party to the Master Settlement Agreement. Brown & Williamson argued it was not responsible for the cigarettes sold by the Star Tobacco Company. The Master Settlement Agreement requires tobacco companies to make payments based on a number of factors, including market share.

**Other Issues**

Under the new settlement, Brown & Williamson and all major tobacco manufacturers agreed to be responsible for cigarettes manufactured for other companies. The settlement resolves other issues, including whether the Master Settlement Agreement was a significant factor in causing market share for the major companies to decline during the last four years. This issue could have resulted in reducing future payments to the states.

**More Information**

Additional information is available from the LSA upon request.

STAFF CONTACT: Beth Lenstra (Ext. 16301) David Reynolds (Ext. 16934)

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**MEDICAID FORECAST STAFF MEETING****Medicaid Projection**

Staff from the Department of Management (DOM), Department of Human Services (DHS), and Legislative Services Agency (LSA) met on June 20 to discuss the Medical Assistance (Medicaid) projection for the remainder of FY 2003. Based on expenditures and enrollment through the end of May, the three staffs agreed to a projected FY 2003 year-end surplus of between \$5.0 and \$9.0 million. This represents approximately 1.0% of the overall Medicaid budget and does not include the Federal Fiscal Relief funding for Medicaid.

**Fiscal Relief**

The Federal Fiscal Relief package to the states includes \$10.0 billion for Medicaid. Of the \$10.0 billion, Iowa is projected to receive approximately \$15.0 million in FY 2003 and \$70.0 million in FY 2004. The funding flows to the states through a 3.0% increase in the Federal match rate for Medicaid. Iowa's Federal Fiscal Year 2003 rate increases from 63.5% to 66.5%. The increased federal matching rate reduces the amount needed for the State match, resulting in surplus State funds.

**Senior Living Trust**



**Medicaid Transfer**

When the State surplus due to the Federal Fiscal Relief is combined with the estimated \$5.0 to \$9.0 million surplus, an estimated total of \$20.0 to \$29.0 million in State funds will remain unexpended at the end of FY 2003. HF 667 (FY 2004 Health and Human Services Appropriations Act) requires any Medical Assistance (Medicaid) Program funds unexpended at the end of the fiscal year to revert to the Senior Living Trust Fund.

Effective July 7, 2003, the Governor transferred \$15.2 million of the FY 2004 Medical Assistance (Medicaid) appropriation to the Salary Adjustment Fund. The Governor stated that the transfer is due to extensive efforts to control costs and maximize efficiency in FY 2003 that are expected to carry forward into FY 2004.

**More Information**

Additional information is available from the LSA upon request.

STAFF CONTACT: Jennifer Vermeer (Ext. 14611)

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**UPDATE ON SENIOR LIVING TRUST FUND PROJECTIONS**

**Senior Living Trust**



**Fund Projections**

The Legislative Services Agency (LSA), Fiscal Services, has compiled projections for the Senior Living Trust Fund. The Fund was established to receive deposits from intergovernmental transfers that resulted from the State's ability to draw down federal matching funds calculated as if all nursing facilities in the State are reimbursed at the federal Medicare rate, which is higher than the Iowa Medicaid rate.

The Fund is a time-limited revenue source and it is estimated that the last major deposit into the Fund will be during the first quarter of FY 2004 due to the phase-out of this particular intergovernmental transfer mechanism. Current estimates assume that if appropriations for future fiscal years continue at the FY 2004 levels, the Fund will be depleted in FY 2006.

**Funding Table**

The following table provides the revenues and expenditures for the Fund for FY 2001 through FY 2006. The table does not include any potential repayment of funds that may occur in FY 2003 and beyond, which could impact the longevity of the Fund.

SENIOR LIVING TRUST FUND  
(Dollars in Millions)

	Actual FY 2001	Actual FY 2002	Est. FY 2003	Projected FY 2004	Projected FY 2005	Projected FY 2006
<b>Revenues</b>						
Beginning Balance	\$ 0.0	\$ 60.9	\$ 127.0	\$ 336.7	\$ 236.5	\$ 86.2
Intergov. Transfer	95.6	129.9	120.6	54.3	7.5	7.5
Hospital Trust Fund Transfer	0.0	13.2	0.0	0.0	0.0	0.0
Medicaid Transfer	0.0	6.0	0.0	0.0	0.0	0.0
Pending Fund Transfer	0.0	0.0	167.9	0.0	0.0	0.0
Interest	3.8	4.4	7.5	7.0	4.4	1.7
<b>Total Revenues</b>	<b>\$ 99.4</b>	<b>\$ 214.4</b>	<b>\$ 423.0</b>	<b>\$ 398.1</b>	<b>\$ 248.3</b>	<b>\$ 95.3</b>
<b>Expenditures</b>						
Nursing Facility Conversion & Service Grants	\$ 0.5	\$ 7.9	\$ 2.6	\$ 20.0	\$ 20.0	\$ 20.0
DHS Service Delivery						
Assisted Living Rent Subsidy	0.0	0.1	0.7	0.7	0.7	0.7
Medicaid Elderly Waiver	0.0	0.7	0.7	0.7	0.7	0.7
Nursing Facility Reimbursement	33.7	24.8	30.0	30.0	30.0	30.0
Medicaid Supplement	0.0	48.5	45.5	101.6	101.6	101.6
DHS Administration & Contracts	0.3	0.0	0.3	0.3	0.3	0.3
Dept. of Elder Affairs Service Delivery & Adm.	4.1	5.3	6.6	7.5	8.1	8.7
Dept. of Ins. & Appeals Asst'd Living & Adult Day Care	0.0	0.0	0.0	0.8	0.8	0.8
<b>Total Expenditures</b>	<b>\$ 38.5</b>	<b>\$ 87.3</b>	<b>\$ 86.3</b>	<b>\$ 161.6</b>	<b>\$ 162.2</b>	<b>\$ 162.8</b>
<b>Ending Balance</b>	<b>\$ 60.9</b>	<b>\$ 127.0</b>	<b>\$ 336.7</b>	<b>\$ 236.5</b>	<b>\$ 86.2</b>	<b>\$ -67.5</b>

The sum of the numbers may not equal totals due to rounding.

## Appropriations

The General Assembly has appropriated a total of \$195.6 million from the Senior Living Trust Fund to supplement the Medical Assistance (Medicaid) Program in FY 2002, 2003, and 2004, and with the following repayment provisions:

- House File 2245 (FY 2002 Medicaid Supplemental Act) required the remaining FY 2002 Hospital Trust Fund balance of \$13.2 million be transferred to the Fund.
- House File 2627 (FY 2003 Second Omnibus Appropriations Act) required the remaining FY 2002 State funds from Medicaid in the amount of \$6.0 million be transferred to the Fund.
- House File 667 (FY 2004 Health and Human Services Appropriations Act) requires all FY 2003 and FY 2004 State funds remaining from Medicaid be transferred to the Fund.
- Senate File 458 (FY 2004 Standing Appropriations Act) requires the transfer of \$118.0 million from future excess revenues of the Economic Emergency Fund to the Senior Living Trust Fund. Before this occurs, the Economic Emergency Fund must reach the maximum balance required by the Code of Iowa, and the first \$40.0 million of excess funds must be transferred to the Endowment for Iowa's Health Account. The current estimate assumes this repayment will begin between FY 2008 and FY 2010.



## More Information

Additional information is available from the LSA upon request.

STAFF CONTACT: Lisa Burk (Ext. 17942)

## LOTTERY REVENUES AND EXPENDITURES THROUGH MAY

**May Rev./Exp.**



The FY 2003 Lottery game revenues through the month of May increased by \$606,000 compared to the FY 2002 level. Lottery prize expenses increased by \$2.5 million, operating expenses decreased by \$1.2 million, and transfers to State funds decreased by \$124,000. The following table details revenues, expenditures, and balances of the State Lottery. Rows and columns may not add, due to rounding.

<b>STATE LOTTERY</b>				
July Through May (Dollars in millions)				
	FY 2002	FY 2003	Increase/ Decrease	% Increase
Fiscal Year Beginning Balance	\$ 2.2	\$ 2.3	\$ 0.2	
Game Revenues	\$ 164.0	\$ 164.6	\$ 0.6	0.4%
Interest	0.8	0.6	-0.2	-19.6%
Total Revenue	\$ 164.8	\$ 165.3	\$ 0.5	0.4%
Prize Expense	\$ 92.7	\$ 95.2	\$ 2.5	2.7%
Operating Expense	35.2	34.0	-1.2	-3.5%
Transfer of Profits	36.6	36.5	-0.1	-0.3%
Total Expense	\$ 164.5	\$ 165.7	\$ 1.1	0.7%
May Ending Balance	\$ 2.4	\$ 1.9	\$ -0.5	

### Comparison to FY 2002

Fiscal year sales through May, compared to the same time period in FY 2002, were as follows:

- Instant ticket sales increased by \$3.6 million (5.1%).
- Pick 3 sales increased by \$942,000 (21.8%).
- Multi-State Powerball sales decreased by \$5.2 million (9.5%).
- Roll-down sales decreased by \$1.1 million (100.0%).
- Freeplay Replay sales decreased by \$22,000 (6.7%).
- Daily Game sales increased by \$75,000 (1.9%).
- Pull-tab sales increased by \$608,000 (2.5%).

### Ticket Sales



**Hot Lotto**

Total Lottery sales through May were \$164.6 million, an increase of \$606,000 (0.4%) compared to May 2002. July through May 2003 sales for the Instant Tickets, Pick 3, Daily Game, and Pull-tabs were above sales for the same period during FY 2002.

Hot Lotto, which was not offered until April 7, 2002, had sales through May of \$5.2 million. Hot Lotto replaced Roll-down, which ended April 6, 2002, and had sales through May 2002 of \$1.1 million.



**Ticket Sales**

Ticket sales through Monitor Vending Machines began in May 2003, on a trial basis. Monitor Vending Machines had sales through May of \$73,000.

**Estimated Transfers**



The Revenue Estimating Conference (REC) projected FY 2003 Lottery profit transfers to the General Fund would total \$38.0 million at the April 9 meeting. Actual profit transfer for FY 2002 was \$40.0 million. Therefore, the REC is currently estimating General Fund Lottery transfers will be \$2.0 million (5.0%) lower in FY 2003 than in FY 2002. The FY 2003 transfers to the General Fund through May were \$124,000 (0.3%) below FY 2002.

House File 2627 (FY 2003 Second Omnibus Appropriations Act) required the lottery to deduct \$500,000 from calculated retained earnings before making lottery proceeds transfers to the General Fund during FY 2003. The impact was a one-time increased transfer of \$500,000.

**Unclaimed Powerball**

The proceeds transfers for FY 2003 includes \$1.2 million from the sales amount for Iowa's share of an unclaimed Powerball ticket sold in Indiana.

**Demutualization**

The proceeds transfers for FY 2002 included the receipt of \$1.2 million due to the demutualization of Principal Mutual Insurance Company, and \$2.8 million in net settlement proceeds from Scientific Games, Inc., which was the vendor for the replacement of store terminals.

**Sales Tax**

In addition to the amount transferred to the State as profits, the Lottery transferred \$8.2 million in sales tax during FY 2003.

**More Information**

Additional information is available from the LSA upon request.

STAFF CONTACT: Ron Robinson (Ext. 16256)

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**BOARD OF REGENTS MEETING**

**Regents Meeting**

The Board of Regents met on June 18-19 at the Iowa School for the Deaf in Council Bluffs. Significant agenda items included:

**Personnel Changes**



Personnel transactions:

- University of Iowa (SUI) – Reappointed Doug True as Treasurer and Douglas Young as Secretary for FY 2004. At the May meeting, the Board added duties to Doug True's position of Vice President for Finance and University Services and renamed the position Vice President for Finance and Operations and University Treasurer. The Board also approved a pay increase for Doug True from \$194,000 to \$240,000.
- Iowa State University (ISU) – Reappointed Margaret Pickett as Secretary and Joan Thompson as Treasurer for FY 2004.
- University of Northern Iowa (UNI) – Reappointed Gary Shontz as Secretary and Treasurer for FY 2004. Appointed Jeffrey Cornett as Dean of the College of Education effective July 1, 2003, at a salary of \$134,000.

**Salary Policies**

Approved salary policies for professional and scientific staff for FY 2004:

- SUI – plans to increase pay ranges by 2.0% at the minimum and 4.0% at the maximum, with an average increase of 1.5% to 2.3%.
- ISU – plans no increase for pay ranges, but plans to provide an average increase of 2.0%, with one-third for satisfactory performance and two-thirds for merit.

- UNI – plans to increase pay ranges by 2.0% at the minimum and 3.5% at the maximum, with an average increase of 3.5%.

### **Special Schools Salaries**

Approved salary policies for the Special Schools for FY 2004. The pay matrix for both schools will be increased by 2.5% with an average increase of 3.9% at the Iowa School for the Deaf, and 4.0% at the Iowa Braille and Sight Saving School.

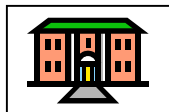
### **Preliminary Budget**



Approved preliminary FY 2004 budgets and FY 2003 budget ceiling adjustments.

- FY 2003 budget ceiling adjustments. Iowa State University and the Iowa Braille and Sight Saving School requested FY 2003 budget ceiling adjustments of \$2.0 million and \$57,000 respectively. Iowa State's request included increased revenue of \$1.7 million from indirect cost recoveries, \$450,000 from tuition, and \$150,000 from interest.
- Preliminary FY 2004 budgets. Preliminary budget totals (general operating funds) for each of the institutions is as follows:
  - SUI - \$1.1 billion (includes \$608.6 million for the Hospitals and Clinics). This is an increase of \$87.2 million (8.4%) compared to the FY 2003 budget. Significant operating revenue increases include: tuition and fees - \$27.6 million (16.1%); indirect cost reimbursements - \$3.8 million (9.0%); and sales and service income (Hospitals and Clinics) - \$30.8 million (12.1%). The Hospitals and Clinics budget includes a rate increase of 9.5% for patient services.
  - ISU - \$426.3 million. This is an increase of \$5.4 million (1.3%) compared to the FY 2003 budget. Significant operating revenue increases include: tuition and fees - \$20.9 million (14.9%) and indirect cost reimbursements - \$3.0 million (23.0%).
  - UNI - \$139.3 million. This is an increase of \$5.7 million (4.3%) compared to the FY 2003 budget. The tuition revenue increase is \$8.6 million (18.0%).
  - Iowa School for the Deaf - \$8.9 million. This is an increase of \$296,000 (3.5%) compared to the FY 2003 budget.
  - Iowa Braille and Sight Saving School - \$5.0 million. This is an increase of \$146,000 (3.0%) compared to the FY 2003 budget.

### **Capital Improvements**



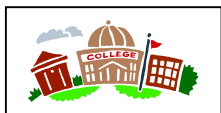
Develop a FY 2004 capital improvement policy. The Board approved a new policy for evaluation of capital projects that includes higher standards in an attempt to limit capital funding needs. Members of the Board indicated that with the current economy, the institutions should expect to continue to operate with limited funds and that the focus should be on academic instruction rather than capital improvements.

### **Organizational Review**

Update report on organizational review. The Board authorized an organizational review in May 2002, and contracted with MGT of American, Inc., a consulting firm from Tallahassee, Florida. Phase I of the Review involved identification of areas to be studied to improve efficiency, effectiveness, and accountability. Phases II and III were short-term and long-term studies of the areas identified in Phase I. The Board has received periodic reports as projects were completed and this Report provided results of the final six projects that included:

- Streamlining instructional program delivery.
- Review of revenue enhancement opportunities.
- Improve reallocation process.
- Seek modifications to State regulatory statutes.
- Conduct further review of governance reports.
- Review administrative procedures at the Iowa Braille and Sight Saving School.

### Banking Committee



Report of Banking Committee. The Committee recommended and the Board adopted a resolution authorizing expenditure of bond proceeds of \$4.9 million from academic revenue bonds for UNI. The funds are to be used to remodel space in Gilchrist Hall. The Committee also received a report regarding the Board's investment portfolio. The Board maintains two investment portfolios – one for operating funds and one for endowment funds. The value of the funds as of March 31, 2003, was \$949.0 million in operating and \$351.7 million in endowment.

### More Information

Additional information is available from the LSA upon request. For information about the Board of Regents meeting, including the full text of docket memos for each agenda item, please refer to the Board's web site at: <http://www2.state.ia.us/regents/Meetings/meetings.html>.

STAFF CONTACT: Mary Shipman (Ext. 14617)

## EDUCATION TELECOMMUNICATIONS COUNCIL MEETING

### Council Meeting



The Education Telecommunications Council (ETC) met on June 25 at the Iowa Public Television (IPTV) offices in Johnston. The agenda included action on recommendations regarding the FY 2005 appropriation to the Regional Telecommunications Councils (RTCs) and FY 2005 education video rates for the Iowa Communications Network (ICN). The Council also discussed declining usage of the ICN by K-12 schools and elected officers for FY 2004.

### RTC Appropriation

The Council voted unanimously to recommend a 3.0% increase in funding to the RTCs for FY 2005. House File 662 (FY 2004 Education Appropriations Act) appropriated \$1.6 million for the RTCs in FY 2004, of which \$1.3 million is allocated to the RTCs and \$300,000 is allocated to IPTV for support functions related to the ICN. This maintains the FY 2003 level of funding. A 3.0% increase in FY 2005 would equate to an increase of \$38,000 in the allocation to the RTCs. The Council does not make recommendations regarding the allocation to IPTV.

### Professional Development

The Council also voted unanimously to recommend that the ITPV Board strongly consider recommending additional funding in FY 2005 for teacher professional development related to the use of technology, including the ICN. The Council will also ask the State Board of Education to support such a recommendation. Participants in the discussion noted that RTCs are spending a greater percentage of their State appropriation on scheduling and technical support as the system ages, minimizing funds available for training.

**ICN Video Rates**



The Council voted unanimously to recommend that educational video rates for FY 2005 be reduced from FY 2004 to FY 2003 levels in order to encourage more K-12 usage of the ICN. The following table shows FY 2003 and FY 2004 (current) rates per hour:

**ICN VIDEO RATES**

<b>Category</b>	<b>FY 2003</b>	<b>FY 2004</b>
K-12/Library	\$12.20	\$12.80
Community College	\$ 7.75	\$ 8.10
Regents/Private Colleges	\$ 8.10	\$ 8.10
Other Training	\$ 8.10	\$ 8.50
Administration	\$14.75	\$15.50
Federal/Telemed	\$53.00	\$55.70

**New Rates**

The Council will also recommend that a new category of rates be established for K-12 users that are not eligible for the 54.0% federal E-Rate discount – primarily community colleges providing K-12 courses. The rate for this category using the FY 2003 levels would be \$5.61 per hour.

**Virtual Academy**

The Council discussed fees for classes offered through a future Virtual Academy and whether those fees should cover ICN costs in addition to the costs of providing a teacher. There was disagreement among members of the Council over whether a Virtual Academy should be self-supporting.

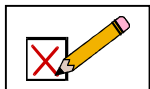
**Future of the ICN**

The Council listened to a presentation by Dirk J. “Jon” Winkel, President of Long Lines, Ltd., a telephone company located in Sergeant Bluff, Iowa. He discussed his proposal for the State to sell the ICN to private business. A similar proposal was included as an amendment to SF 458 (FY 2004 Standing Appropriations, Salary Provisions, and Statutory Changes Act) but was vetoed by the Governor, who cited concerns that the needs of educational and military ICN users were not adequately addressed. The ETC had encouraged and supported the Governor’s veto.

**Stakeholders**

Mr. Winkel discussed his involvement in the development of the amendment and his role, at the request of Governor Vilsack, in building consensus among stakeholders to consider future changes. He said the needs of education and the military ICN users have been recognized, and he encouraged the ETC’s participation in discussions of the future of the ICN. He noted that a consortium of rural telephone companies would bid if a sale of the ICN were authorized. ETC members expressed support for the concept as long as education interests are adequately addressed.

**Election of Officers**



Election of Officers – The Council elected Mary Gannon, Iowa Association of School Boards, to serve as Chairperson for FY 2004, and Ellen Kabat Lensch, Iowa Association of Community College Trustees, as Chairperson-Elect.

**More Information**

Additional information is available from the LSA upon request.

STAFF CONTACT: Robin Madison (Ext. 15270)

## DEPARTMENT OF HUMAN SERVICES HOLDS CHILD WELFARE REDESIGN TOWN MEETING IN DES MOINES

### Town Meeting



On June 19, the Department of Human Services (DHS) held a town meeting in Des Moines related to the redesign of the State Child Welfare System. The meeting was held to provide an opportunity for individuals to comment on the current system and propose ideas for change.

### Other Locations

The Des Moines meeting was the last in a series of town meetings that were held in each DHS service area, including Sioux City, Waterloo, Dubuque, Ames, Council Bluffs, Cedar Rapids, and Davenport during the month of June.

### Information Gathered

The information gathered at the town meetings will be considered and used by the DHS and the Stakeholder Panel during the redesign effort.

### More Information

Additional information is available from the LSA upon request. The DHS web site has information regarding the progress of the child welfare redesign efforts at: <http://www.dhs.state.ia.us/BetterResultsforKids/default.asp>.

STAFF CONTACT: Lisa Burk (Ext. 17942)

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## SENIOR LIVING COORDINATING UNIT HOLDS MEETING

### Senior Living Unit



On June 20, the Senior Living Coordinating Unit met and conducted the following business:

- Eileen Creager, Department of Human Services (DHS), reported on the progress of the work group that is meeting to redesign case management assessments as required by HF 619 (FY 2004 Medicaid Reform Act). The proposal for this redesign is due October 1. The work group includes representatives from the DHS, the Department of Elder Affairs, and the Area Agencies on Aging. Ms. Creager explained that Iowa's Elderly Waiver will be reviewed in August and that the Centers for Medicare and Medicaid Services (CMS) require assessments not be completed by service providers. She noted there is extensive oversight of the current assessment process; however, it is not well documented, which is being addressed by the work group.
- Ms. Creager also reported on the status of the two Requests for Proposals (RFPs) that were issued for nursing facility conversion grants. The first RFP was issued in July 2000, and resulted in 27 grant awards totaling \$10.5 million. When all projects are completed, the new services created will include 192 assisted living beds, 11 adult day care programs, two meal sites, and three respite programs. In addition, 223 nursing facility beds will be de-licensed as a result of the first RFP. The second RFP, which was issued in July 2001, had 21 applicants and it is estimated that grants totaling \$11.0 million will be awarded. It is anticipated that the new services created will include 206 assisted living beds, 11 adult day care programs, seven respite care programs, two meal sites, and two transportation programs. In addition, it is anticipated that 259 nursing facility beds will be de-licensed as a result of the second RFP.
- Jim Matre, Department of Elder Affairs, reported on a grant proposal that will tie into the seamless system project that is designed to create better access to services for seniors with a single point of entry for the service system. The Department has applied for additional funds due to the availability of a three-year federal grant of \$800,000 from the federal Administration on Aging.

- Mark Haverland, Department of Elder Affairs, also reported on the proposal for the redesign of case management assessments, noting that a pre-admission screening assessment process is also being discussed. It is envisioned that the pre-admission assessment would be mandatory for all nursing home applicants, including those that pay privately. The State of Maine has a program of this nature and reports a dramatic decline in the reliance on nursing facility care since the program was implemented and an increase in less costly home and community-based services. The State of Maine contracts with one agency that is not a provider of long-term care services to operate the assessment program statewide. Last year, 50,000 screenings were conducted in Maine with the use of State and Medicaid funds.
- Mr. Haverland also reported that the Department is partnering with the American Association of Retired Persons (AARP) and others in the aging network to develop a long-range plan for long-term care in Iowa. It is anticipated that a public town meeting will be held in Des Moines in September on the topic.
- Mike Tramontina and Carla Pope, Iowa Finance Authority, reported on low-income housing initiatives for seniors and the disabled that are now available and anticipated for the future. Ms. Pope provided information on Emerson Point in Iowa City, which is a 54-unit assisted living center intended for persons age 65 or older with an annual income at or below \$29,000 for a one-person household or \$33,000 for a two-person household.
- Bob Bacon, University of Iowa, reported on the progress of the Olmstead Real Choices Work Group, which is a coordinated effort between the State Mental Health and Developmental (MHDD) Commission and State agencies to reshape the structure and nature of community-based services based on the June 1999 U.S. Supreme Court Olmstead Case Decision. Mr. Bacon also noted the need for collaboration between the Real Choices Work Group and the Senior Living Coordinating Unit.



**Next Meeting**

The next meeting will be held on September 19.

**More Information**

Additional information is available from the LSA upon request.

STAFF CONTACT: Lisa Burk (Ext. 17942)

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**DEPARTMENT OF HUMAN SERVICES STAKEHOLDER  
PANEL ON CHILD WELFARE HOLDS MEETING**

**Stakeholder Panel**

The Department of Human Services (DHS) held the second meeting of a stakeholder panel designed to provide input for the redesign of Iowa's child welfare system on June 26. Senate File 453 (FY 2004 Government Reinvention Act) required the redesign effort with implementation to begin in January 2004.

**Town Meetings**



The Panel reviewed what has been learned during the listening phase of the redesign, which involved feedback from over 1,000 individuals, including parents, children, foster and adoptive parents, providers, and others. The information was gathered during the month of June and forums included eight public town meetings held in each DHS service area across the State, 25 focus group interviews, 40 individual interviews, and eight DHS staff meetings in each service area.

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<b>Preliminary Report</b>	The Panel also received a preliminary report on what has been learned from other states that have recently made changes to foster care and juvenile justice systems.
<b>Next Meeting</b>	The next Stakeholder Panel meeting will be held on July 31.
<b>More Information</b>	It is anticipated that reports with information from other states and the listening phase will be available at the DHS web site by July 18 at: <a href="http://www.dhs.state.ia.us/BetterResultsforKids/default.asp">http://www.dhs.state.ia.us/BetterResultsforKids/default.asp</a> . This web site also provides information on the progress of the child welfare redesign and an opportunity for public feedback.

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STAFF CONTACT: Lisa Burk (Ext. 17942)

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## **NATURAL RESOURCE COMMISSION HOLDS MEETING**

### **Commission Meeting**



The Natural Resource Commission conducted a teleconference meeting on June 26. The following issues were discussed:

Linda Hanson, Department of Natural Resources (DNR), asked the Commission to approve construction projects. The following projects were approved:

- Construction of the main roadway at the Honey Creek Destination Park for \$272,000.
- Construction of a water distribution system at Beed's Lake State Park for \$125,000.
- Construction of a pipe drain at the Badger Creek Wildlife Management Area for \$66,000.
- Construction of a sewer system at Viking Lake State Park for \$53,000.
- Construction of an electrical system at Brushy Creek State Park for \$103,000.

### **Land Purchase**

The Commission was asked to approve land purchases. The following purchases were approved:

- A total of 70.5 acres in Lyon County near the Big Sioux River for the purchase price of \$50,000. Funding is from federal funds and the Lyon County Pheasants Forever Chapter.
- A total of 40.0 acres in Hancock County on the west edge of Gladfelter Marsh for the purchase price of \$65,000. Funding is from the federal North American Wetland Conservation Act.
- A second parcel of land totaling 40.0 acres in Hancock County on the west edge of Gladfelter Marsh for the purchase price of \$66,000. Funding is from the federal North American Wetland Conservation Act.



**Capital Projects**

Ms. Hanson asked the Commission to approve the Capital Projects Plan that was discussed at the previous meeting. The Commission approved the following:

**Department of Natural Resources Capital Projects for FY 2004**

<b>Fund Source</b>	<b>FY 2003 Carryforward</b>	<b>FY 2004 Appropriation</b>	<b>Total Available</b>
Tobacco Settlement Fund			
Destination Park	\$ 700,000	\$ 3,000,000	\$ 3,700,000
Restore the Outdoors Fund	538,000	2,500,000	3,038,000
Total Tobacco Settlement Fund	<u>\$ 1,238,000</u>	<u>\$ 5,500,000</u>	<u>\$ 6,738,000</u>
Environment First Fund			
REAP--Open Spaces	\$ 0	\$ 3,132,000	\$ 3,132,000
REAP--Land Management	0	1,000,000	1,000,000
Marine Fuel Tax	220,000	2,300,000	2,520,000
Lake and Stream Restoration	0	1,000,000	1,000,000
Total Environment First Fund	<u>\$ 220,000</u>	<u>\$ 7,432,000</u>	<u>\$ 7,652,000</u>
Fish and Wildlife Trust Fund	\$ 0	\$ 5,400,000	\$ 5,400,000
Parks and Institutional Roads Fund	\$ 0	\$ 2,872,000	\$ 2,872,000
Sewage Revolving Loan Fund	\$ 0	\$ 664,000	\$ 664,000
Total Funding	<u>\$ 1,458,000</u>	<u>\$ 21,868,000</u>	<u>\$ 23,326,000</u>

**Services Contract**

The Commission was asked to approve a contract with Economic Research Associates for \$120,000 to assist the DNR with contacting, evaluating, selecting, and developing long-term agreements with private partners for the Honey Creek State Destination Park. The contract was approved.

**Next Meeting**

The next meeting will be held on August 14 in Chariton.

**More Information**

Additional information is available from the LSA upon request. For review of Commission agendas, minutes, and other related information, please review the DNR web site at: <http://www.iowadnr.com/>.

STAFF CONTACT: Debra Kozel (Ext. 16767)

**AUDIT REPORT – DEPARTMENT OF PUBLIC DEFENSE**

**Audit Report**



The State Auditor issued the FY 2002 Audit Report for the Department of Public Defense on June 18. The Legislative Services Agency (LSA) received the report on June 27.



**Findings**

**Consolidated Interactive Virtual Information Center (CIVIC)** – The CIVIC Program was a cooperative agreement between the U.S. Government and the State of Iowa. The Program was supported by the Iowa Technology Center (ITC) and International Simulation and Training Systems (ISTS) in August 1999. Beginning in November 2000, and continuing through June 30, 2002, the cumulative amount expended for the Program was \$19.2 million. Expenditures in FY 2002 totaled \$12.5 million. At the request of the U.S. Property and Fiscal Officer, an internal review was performed on October 1, 2002. From the review, it was determined that from October 1, 2001, through May 31, 2002, Iowa had overcharged the CIVIC Cooperative Agreement by \$8.7 million. The following are some of the items in question:

- Costs associated with an office in Arizona.
- Marketing of homeland security.
- A commercial business group.
- Christmas parties for the staff.
- Individual retirement accounts.

**National Guard**

The Program also began to involve groups outside the National Guard, such as the U.S. Army and U.S. Air Force. The Program ended in September 2002, and is currently under investigation by the Defense Criminal Investigative Service of the Department of Defense, Office of Inspector General. Due to the items in question listed above, costs of \$12.5 million for FY 2002 are being questioned.

- **Recommendation** – The Department should review the questioned costs and seek assistance from the Office of the Iowa Attorney General to resolve the matter. The Department should also identify risk factors associated with vendor contracts and require detailed documents.
- **Response and Corrective Action Planned** – The Attorney General's Office is involved in a contracting review with the Defense of Criminal Investigative Services. The findings and recommendations of these committees will be supported and implemented in future agreements involving the Department of Public Defense.
- **Conclusion** – Response acknowledged. Regardless of the contractor, risk factors should be identified and sufficient detailed documentation required.

**Other Findings**

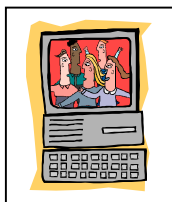
**Cash Management Improvement Act** – The Auditor reviewed the Military Division payroll drawdowns for FY 2002. For eight of the 26 pay periods, payroll expenses for Security, Crash, and Rescue Program were requested and received before the payroll warrants were issued. For four of the 26 pay periods, the request for reimbursement was submitted from 15 to 28 days after the end of the pay period. The Auditor recommended that the Department ensure that federal funds for payroll are requested on a reimbursement basis and in a timely fashion. The National Guard is striving to put procedures in place to change the State/Federal Cooperative Agreement to an advance payment method. To insure compliance with federal regulations, the Guard has had to develop new reports, which did not allow them to meet the October 1, 2002, deadline. The Guard plans to meet an October 1, 2004, deadline for compliance of these procedures. The

response was acknowledged and the process will be reviewed during the next audit.

**Master Cooperative Agreement Appendices** – The Auditor recommended that the State fiscal office ensure that they receive copies of the master cooperative appendices and monitor the disbursements to ensure they do not exceed the authorized amounts. The Military Division's Fiscal staff is working with the U.S. Property and Fiscal Office to develop procedures to ensure that these improvements are done. The response was acknowledged and will be reviewed during the next audit.

**Master Cooperative Agreement Reimbursements** – The Auditor recommended that the Military Division ensure that State funds are being spent prior to requesting reimbursement from the federal government in accordance to the Master Cooperative Agreement. The Military Division is developing procedures for an advance payment method rather than a reimbursement method. The procedures will be phased in by appendix numbers and is expected to be completed October 1, 2004. The response was acknowledged and will be reviewed during the next audit.

**State Equipment Acquired Through Agreement** – The Auditor recommended that the Military Division ensure that all equipment belonging to the State of Iowa and acquired under a cooperative agreement is identified and accounted for in accordance with Section 7A.30, Code of Iowa. The Military Division has procedures in place for compliance. The Military Division has created and filled an additional FTE position for use by the State Quartermaster to ensure that State property is properly accounted for. The response was accepted.



## Internal Control

**Capital Assets** – There were several issues regarding the internal control of capital assets. Section 7A.30, Code of Iowa, requires each Department and Division of State government to maintain an accurate, up-to-date inventory of all real and personal property belonging to the State. The following findings were noted for the Military Division:

- Projects of less than \$50,000 were excluded from capital assets because costs were accumulated by project, rather than by building.
- Certain capital assets, such as sewer systems, were classified as building improvements. These types of assets are better classified under infrastructure.
- The Military Division incorrectly classified building adjustments of \$77,000 as additions.
- Three of 15 assets tested for existence were not properly tagged and were not included on the asset listing.

## Emergency Management



The following findings were noted for the Emergency Management Division:

- A portion of the accumulated depreciation attributable to capital asset deletions of \$89,900 was not eliminated.
- One asset for \$20,000 was incorrectly included twice as an addition and deletions totaling \$76,000 were not eliminated. Instead, an unsupported adjustment of \$96,000 was shown on the Generally Accepted Accounting Principles (GAAP) package for these items.

- Four of the eight assets acquired in FY 2002, were not properly tagged and were not included on the asset listing.

### GAAP Accounting



The Auditor's recommendation was that prior to submitting the GAAP package, the Emergency Management Division and the Military Division should ensure that all capitalized assets are added or deleted properly from the State's capital asset list. Additionally, adjustments to the capital asset list should be supported. The response was accepted and the proper changes will be made.

**Salaries and Wages** – Appropriate timesheet records were not maintained for Emergency Management Division personnel that allocate time between one or more federal programs. The Division also did not obtain semi-annual certifications from those employees working solely on a single federal award program. In FY 2003, the Division partially implemented a new timesheet reporting system within the Human Resources Information System (HRIS). The Auditor recommended that the Division continue with the implementation of the new timesheet reporting system in order to maintain appropriate time distribution records. At the time of the audit, the Division was not able to complete the quarterly comparisons the Auditor had recommended. Upon implementation of the State's new payroll system, the need for cost redistribution will be obsolete, as the new system will automatically redistribute personnel costs for each pay period. The response was accepted.

### More Information

Additional information is available from the LSA upon request.

STAFF CONTACT: Jennifer Dean (Ext. 17846)

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## AUDIT REPORT – DEPARTMENT OF ECONOMIC DEVELOPMENT

### Audit Report



The State Auditor issued the FY 2002 audit of the Department of Economic Development and reported the following:

**Cash Management** – Effective cash management procedures provide for minimizing the amount of time between the drawdown and request for federal funds and the disbursement of those funds. As stated in the Cash Management Improvement Act (CMIA) Agreement, the Community Development Block Grant and the Home Investment Partnerships Program are funded on a pre-issuance basis. This means that federal draws are not deposited more than two days prior to the date of disbursement. A review of the Department's ledgers and cash management system showed the Department drew down funds for these programs and did not disburse the money in a timely manner. The Auditor recommended that the Department implement procedures to better manage drawdown and disbursement of funds. The Department responded by indicating it would more closely monitor this activity. The response was accepted.

### Development Board



**Iowa Economic Development Board** – The Board consists of 11 voting members, one of which is the Secretary of Agriculture. A non-voting designee representing the Secretary attended seven of the monthly Board meetings during FY 2002. Because this individual does not have voting rights, it takes away the potential tie-breaking vote on the Board. The Auditor

recommends encouraging the Secretary of Agriculture to attend the meetings or working with the Legislature to allow the Secretary to send a designee with voting rights. The Department indicated it would both encourage the Secretary to attend, as well as work with the Legislature to allow the Secretary of Agriculture to send a designee with voting rights. The response was accepted.

#### Required Reports

**Required Reports** – The Code of Iowa allows funds from prior fiscal years to be encumbered by the Department for employee training, technology enhancement, or purchase of goods and services from Iowa Prison Industries. Any agency encumbering these funds is required to submit a report by the end of the fiscal year to various State entities detailing fund expenditures. The Department of Economic Development did not complete or submit this report by June 30. The Department responded by indicating that the report was submitted later during calendar year 2002. The response was accepted.

#### More Information

Additional information is available from the LSA upon request.

STAFF CONTACT: Russell Trimble (Ext. 14613)

### AUDIT REPORT – IOWA ETHICS AND CAMPAIGN DISCLOSURE BOARD

#### Audit Report



The State Auditor issued a FY 2002 notification of audit letter for the Iowa Ethics and Campaign Disclosure Board on June 16. The letter sent to Board Members did not report any audit findings.

#### More Information

Additional information is available from the LSA upon request.

STAFF CONTACT: Sam Leto (Ext. 16764)

### AUDIT REPORT – DEPARTMENT OF NATURAL RESOURCES

#### Audit Report



The State Auditor issued the FY 2002 Audit Report for the Department of Natural Resources (DNR) on June 20. The report was received by the Legislative Services Agency on June 25.

#### Reportable Conditions

The Report commented on the following issues regarding internal control:

#### Electronic Data Processing

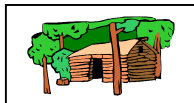
**Electronic Data Processing** – The DNR maintains several systems for processing data to collect receipts, issue permits, and for capital asset management. The DNR does not have sufficient written policies for identification of software developed internally.

- Recommendation – The DNR should develop written policies for software systems developed within the Department.
- Response – The DNR will identify user-developed software during the next 12 months and develop written policies.
- Conclusion – Response acknowledged.

**Internal Control**

**Internal Control** – Internal control at State Parks could be improved. Eight parks were unaware of written policies for handling camping receipts, two parks did not have procedures regarding equipment, three parks did not provide initial listing of camping receipts, five parks did not utilize restrictive endorsement for camping fee checks, and 13 parks did not have separation of duties.

- Recommendation – Written policies and procedures should be communicated to State Park employees. Various cash handling duties should be segregated among the employees at State Parks.
- Response – The issue of internal control was discussed at a meeting with the DNR District State Park Supervisors on April 9.
- Conclusion – Response accepted.

**Capital Asset Listing**

**Capital Asset Listing** – The Department does not maintain an up-to-date listing of capital assets. The following items were noted: 10 buildings were not listed, 15 buildings had been demolished and were still on the listing, one park transferred ownership to a county and the buildings were not removed from the listing, 41 equipment items were not listed, 49 items were no longer in possession but were on the listing, seven equipment items could not be located, and six equipment items were improperly tagged.

- Recommendation – The Department should maintain an accurate capital asset listing.
- Response – The Department conducts an inventory confirmation of capital assets in March. The audit was conducted prior to finalizing the listing.
- Conclusion – Response accepted.

**Miscellaneous Receipts**

**Miscellaneous Receipts** – The Department uses receipt books for miscellaneous receipts. The receipt books were not always issued in numerical order and receipt books used at field locations were not always returned to the central office prior to the issuance of new books.

- Recommendation – The Department should issue receipt books in numerical order and finished books should be returned to the central office.
- Response – The Department does issue the receipt books in numerical order, however, a book may occasionally be issued out of sequence. Receipt books at State Parks must be maintained throughout the camping season as refunds may be issued and the receipt book is used as documentation for the refund.
- Conclusion – Response acknowledged.

**Other Findings**

Other findings related to statutory requirements included:

- Comprehensive Plans for Management of Hazardous Waste – Section 455B.412(1), Code of Iowa, states the DNR will develop a comprehensive plan for management of hazardous waste. The DNR has not complied.
- Comprehensive Groundwater Monitoring Network – Section 455E.8(1), Code of Iowa, states the DNR will develop a comprehensive groundwater monitoring network in cooperation with soil and water conservation district commissioners and other State and local agencies. The DNR has not complied.

- Registry of Hazardous Waste or Hazardous Substance Disposal Sites – Section 455B.426(2), Code of Iowa, states the DNR will investigate all known or suspected hazardous waste or hazardous waste disposal sites. The DNR has not complied.
- Sewage Treatment and Drinking Water Programs – Section 455B.295, Code of Iowa, specifies four separate funds should be established. They include: Sewage Treatment Works Revolving Fund, Sewage Treatment Works Administration Fund, Drinking Water Treatment Revolving Fund, and the Drinking Water Facilities Administration Fund. The four funds have not been established.

#### More Information

Additional information is available from the LSA upon request.

STAFF CONTACT: Debra Kozel (Ext. 16767)

### AUDIT REPORT – DEPARTMENT OF PUBLIC HEALTH

#### Audit Report



#### Segregation of Duties

The State Auditor issued the FY 2002 Audit Report for the Department of Public Health on June 16. The Legislative Services Agency (LSA) received the report on June 26. The Report included five reportable conditions:

**Segregation of Duties – Boards** – Generally, one individual at the Medical Board, Pharmacy Board, and Dental Board may be responsible for receiving cash, preparing deposits, reconciling bank and book balances, and recording and accounting for cash receipts.

- **Recommendation** – Each Board should review its operating procedures to obtain the maximum internal control possible. Current personnel should be utilized to provide additional control through review of financial transactions, reconciliations, and reports. Such reviews should be performed by independent persons to the extent possible, and should be evidenced by initials or signature of the reviewer and the date of the review.
- **Response** – The Medical and Dental Boards cited staff shortages during FY 2002, but have since filled vacant positions and segregated receipt functions. The Pharmacy Board stated that the Board's Administrative Assistant will periodically review and reconcile daily receipts and reports independently of the employees responsible for receiving and processing applications and fees.
- **Conclusion** – The response was accepted.



#### Payroll

**Segregation of Duties – Payroll** – One employee can initiate and approve payroll transactions on the Human Resource Information System (HRIS).

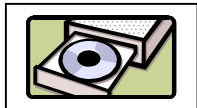
- **Recommendation** – Duties should be segregated so that the same person does not initiate and approve payroll transactions.
- **Response** – All employees with approval access will be reminded that they should not approve timesheets at more than one level. In the event of an emergency that requires they approve the timesheet at both levels, employees will be instructed to enter remarks explaining the circumstances. In addition, all field staff will be expected to either submit timesheets and leave slips or to email their time and leave approvals to the staff person who enters their timesheets.
- **Conclusion** – The response was accepted.

#### Capital Assets

**Capital Assets** – Section 7A.30, Code of Iowa, requires Departments to keep written, detailed, up-to-date inventory of all real and personal property

belonging to the State. Four assets totaling \$40,000 were not included on the capital asset listing maintained by the Department.

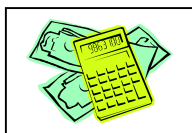
### Computer Software



In addition, the Department utilizes computer software to maintain a listing of equipment, which includes equipment purchased by subrecipients with federal funds. Three of the 10 items tested could not be located or confirmed by the subrecipient listed as custodian of the equipment. Three of four subrecipient assets deleted by the Department did not have documentation to support the deletion. The Department also had an unsupported adjustment to the subrecipient capital assets of \$22,000 for a telephone system.

- Recommendation – The Department should implement procedures to ensure that an up-to-date and accurate inventory of all real and personal property belonging to the State is maintained.
- Response – Internal procedures have been reviewed with appropriate staff (internal Department and subrecipient staff) to ensure compliance with Section 7A.30, Code of Iowa.
- Conclusion – The response was accepted.

### Travel Expenditures

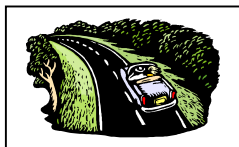


**Travel Expenditures – Boards** – Certain expenditures appear to be in violation of Iowa Department of Revenue and Finance Policies and Procedures.

For the Medical Board, three of the 16 transactions tested did not identify the individual as a Board member. For two of the 16 transactions tested, lodging expense was improperly direct billed to the Board. For one of the 16 transactions tested, the mileage reimbursement was overstated. For three of the 16 transactions tested, the amount charged for meals was included on the claim by Board staff, but there was no evidence to suggest the Board members had a meal that required reimbursement.

For the Pharmacy Board, two instances were noted in which round trip mileage from Maquoketa to Des Moines was claimed for 588 miles although mileage is approximately 388 miles.

- Recommendation – Department personnel processing and approving claims should review claims to ensure compliance with Iowa Department of Revenue and Finance policies and procedures. In addition, the Department should seek refunds of the amounts incorrectly paid.
- Responses – The Medical Board reported that accounting personnel were made aware of the audit findings and individuals will be identified as Board members so no further deficiencies should occur in this area. In addition, the Board will no longer pay direct bills for any lodging and prior to the audit, Board members were reimbursed in travel status during mealtimes after a Board meeting without a request. Since the audit, staff has only reimbursed Board members who have submitted a request for reimbursement for each meal. An agreement has also been reached to make up for the overpayment of mileage reimbursement.



The Pharmacy Board responded that future reviews of personnel processing documents will include an evaluation of the mileage claimed to ensure the claim is reasonable. The claimant who was erroneously paid for excess mileage will be contacted and asked to reimburse for the overpayment.

- Conclusion – The responses were accepted.



## Deposits



**Timely Deposits** – Section 12.10, Code of Iowa, requires departments to deposit 90.0% of all fees, commissions, and moneys collected or received within 10 days of collection with the Treasurer of State. Each month, Iowa counties send checks to the Department for copy fees for items such as marriage licenses and birth certificates collected for the prior month. In two of four months tested, receipts were collected, but not deposited in a timely manner as required by the Code of Iowa.

- Recommendation – The Department should ensure supporting documentation is date stamped when received and deposits are made in a timely manner.
- Response – The Department will begin reporting and depositing these funds twice a month to ensure that deposits are made in a timely manner.
- Conclusion – The response was acknowledged, but it was noted that appropriate amounts should be deposited within 10 days of receipt as required by the Code of Iowa.

## More Information

Additional information is available from the LSA upon request.

STAFF CONTACT: Lisa Burk (Ext. 17942)

## AUDIT REPORT – IOWA DEPARTMENT OF REVENUE AND FINANCE

### Audit Report



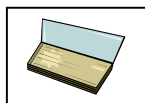
The State Auditor issued the FY 2002 Audit Report for the Iowa Department of Revenue and Finance on June 16. The Legislative Services Agency (LSA) received the report on June 26.

### Reportable Conditions

The Report included three reportable conditions:

**Central Collections Bank Reconciliation** – Variances between the book balance and the bank balance were not investigated and resolved.

- Recommendation – The Department should investigate and resolve variances in a timely manner.
- Response – The Department has been reconciling the checking account on a monthly basis and has consistently carried a balance of \$400 forward each month. The Department has been unable to identify where the funds should be credited. The Department will deposit the funds into the General Fund. In the future, variances between the book and bank balances will be investigated and resolved in a timely manner.
- Conclusion – The response was accepted.



**Receipts** – A restrictive endorsement was not placed on checks when received.

- Recommendation – A restrictive endorsement should be placed on all checks when received to help provide protection in case of theft or loss.
- Response – A restrictive endorsement stamp has been obtained and all checks processed are being endorsed when the mail is opened. The stamp is restrictive to a State of Iowa deposit.
- Conclusion – The response was accepted.



**Use Tax**

**Use Tax** – Beginning in January 2002, the Department established a reconciliation process to review use tax forms submitted by counties and ensure that tax-exempt transactions reported to the Department agree with transactions reported to the Iowa Department of Transportation (DOT).

- Recommendation – The Department should continue to reconcile information submitted from the DOT to information submitted by counties.
- Response – The Department agrees with the Auditor's recommendation. The process initiated in January 2002 is ongoing.
- Conclusion – The response was accepted.

**More Information**

Additional information is available from the LSA upon request.

STAFF CONTACT: Ron Robinson (Ext. 16256)

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**AUDIT REPORT – IOWA DEPARTMENT OF WORKFORCE DEVELOPMENT****Audit Report**

The State Auditor issued the FY 2002 audit for Department of Workforce Development and reported the following:

**Financial Reports**

**Federal Reports** – The Department is required to submit Financial Status Reports for the Employment Service programs on a quarterly basis. The Department did not submit these reports in FY 2002 for the Employment Services Revitalization funds. The Department indicated that the report was missed during a staff transition and no notification was received from the U.S. Department of Labor regarding the missing report. The response was accepted.

**Cost Allocation**

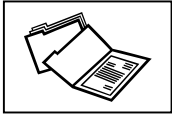
**Cost Allocation** – The Department utilizes a cost allocation system to distribute certain costs among federal and state programs. Allocations are made on a daily basis and may change various times throughout the year. Several methods are used to allocate costs including, but not limited to, square footage, full-time equivalent (FTE) positions, and hours charged to various programs. Cost allocation documentation/support was not available for premise expenses and data processing chargebacks. The Auditor recommended the Department develop procedures to ensure the cost allocations reconcile to supporting documentation. The Department responded that the documentation to support the cost allocation changes did exist, but would take time to present the information in a format that was acceptable to the audit staff. The response was accepted.

**Cash Management**

**Cash Management Improvement Act (CMIA) Agreement, Payroll** – The Department is required to submit a spreadsheet to the Iowa Department of Revenue and Finance which documents payroll expenditures and related federal drawdowns by pay period. The spreadsheet for FY 2002 for the cost pool included allocation percentages to distribute the cost to various cost centers that did not correspond with the percentages actually used in the Iowa Financial Accounting System (IFAS). In addition, several instances were noted in which federal drawdowns for payroll were not in compliance with the terms of the CMIA Agreement. The Auditor recommended that the spreadsheet be accurate and that the Department comply with the terms of the CMIA Agreement. The Department responded that the percentages on

the spreadsheet used to draw down funds were not materially different from those that were used to distribute costs and that no expenditures were ever inaccurately recorded or reported to the U.S. Department of Labor. The Department further responded that it would more closely monitor changes to the cost pool percentages to ensure accuracy in documentation. The response was accepted.

**Federal Reports**



**Federal Reports** – Federal financial and special reports are prepared from the Department's computer system and other supporting documentation. The Auditor recommended that procedures be developed to ensure a supervisory review of reports is performed to verify the accuracy and completeness of data and information reported. The Department responded that since the transition to electronic federal reports, the supervisory review of the data submitted had not been documented in writing, but that immediate action would be taken to correct this. The response was accepted.

**Cash Management**

**Cash Management** – Effective cash management procedures provide for minimizing the amount of time between the drawdown and request for federal funds and the disbursement of those funds. They also minimize the amount of State funds that must be used to operate the program until federal funds are received. For the period October 30, 2001, through December 17, 2001, the Department of Workforce Development carried an excessive cash balance of federal funds. The Auditor recommended that the Department develop procedures to better determine program needs prior to draw down of funds. The Department responded that the excessive cash balance was made in error and that the Department has developed a system so as to prevent those errors from occurring in the future. The response was accepted.

**More Information**

Additional information is available from the LSA upon request.

STAFF CONTACT: Russell Trimble (Ext. 14613)

This document can be found on the LSA web site:  
<http://staffweb.legis.state.ia.us/lfb/fupdate/fupdate.htm>